Choice-of-fund deadline counts down DIY super

Portfolio
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June 30 next year will be a significant date for many people concerned about their superannuation, both those running their own DIY fund and those looking to do more with their own fund.

The start of 2005-06 will see the beginning of choice-of-fund legislation, with expectations that in some cases employees may be able to nominate their own fund as the recipient of the compulsory 9 per cent deductions paid for by employers.

And June 30 will represent probably the last chance some DIY fund members will have of retiring on a defined-benefit pension paid from their own fund, unless Treasury has a sudden change of mind after its current review of the matter.

The June 30 deadline may force some high-net-worth DIY fund members to retire prematurely to take the pension approach which they and their advisers may have been planning for some time.

And because many DIY funds are established by people transferring benefits and money close to retirement, this may well produce even more startling inflows of money into DIY funds — already the most popular sector of the super market in recent times, based on net contributions flows.

Just what effect this will have on the bureaucrats in Canberra is anyone's guess. It seems clear that Treasury and perhaps parts of the Australian Taxation Office harbour deep suspicions about the DIY super fund market, along with some ignorance.

This isn't unusual, given that the politicians and senior public servants have been members of defined-benefit super funds with high levels of contributions but no exposure to the ups and downs of the markets or the hassles of buying a retirement income.

Public servants appear to fail to understand DIY members' ideas of independence and desire to control their own pensions, rather than hand over a large lump sums to a life office to purchase a poor-value pension — and with the risk of forfeiting a left-over lump sum if they lose the life-expectancy gamble.

How else can you explain the targeting of DIY funds over the defined-benefit pensions in a way that appears designed to stop every member having a choice of pension?

Apart from contradicting the basis of choice of fund, this also contradicts some of the Treasurer's February measures, which included the aim of giving people more flexibility to remain longer in the workforce.

The June 30, 2005, deadline will effectively take away the choice of some people who had no intention of retiring by that date.

With about $130 billion invested in DIY super — more than double the amount in industry funds — the sector has now attracted the interest of Rainmaker Information, which revealed last week it had acquired a small specialist researcher in the field, Jenkins Superannuation Services.